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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 000935

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TAGS: [EPET](#) [PGOV](#) [PREL](#) [BO](#) [RS](#)
SUBJECT: MODEST GAS PRICE HIKE LIKELY FOR BELARUS IN 2008

REF: A. MINSK 003

[1](#)B. MINSK 899

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

Summary

[1](#)1. (SBU) Gazprom is likely to raise natural gas prices for Belarus by roughly 25 percent for 2008. Such a modest hike would rule out Russia granting Belarus a stabilization loan. Still, analysts term the predicted 2008 price less than called for by the New Year's agreement between Minsk and Moscow. End summary.

Minsk to Pay Two Bits More for Gas in 2008

[1](#)2. (U) On December 31, 2006, Belarusian PM Sergey Sidorskiy and Gazprom CEO Aleksey Miller agreed that in 2008 Belarus should pay 67 percent of the market rate for gas, defined as the European price minus transit costs (ref A). Gazprom announced it would not begin negotiating with Belarus until November when it had a clearer picture of the European price for 2008, but this did not stop posturing and speculation on the likely price for Belarus. At the high end, press speculated that the formula could result in a price of USD 170 per thousand cubic meters (tcm), or 70 percent over the current USD 100/tcm. In contrast, on September 22, Lukashenko told reporters that "Gazprom plans to raise the price (of gas) 15-20 percent."

[1](#)3. (C) On October 17, Russian Ambassador to Belarus Aleksandr Surikov said "I believe the figure will be close to USD 125." Assuming Belarus again imports 21 billion cubic meters, Minsk would pay USD 525 million more for gas than in 2007. Sergey Zhbanov, economics correspondent for the independent weekly "Belgazeta," terms this as "not a catastrophe," and pointed out that the GOB could privatize another enterprise, such as one of its oil refineries, to cover the increased expense.

No Problem Paying for Gas Means No Stabilization Loan

[1](#)4. (C) Surikov stated at the press conference that a low-interest (three percent) stabilization loan could be made only if Belarus needed the money to cover gas imports. For general investment, Minsk would have to seek commercial credits from Russian banks at market rates of around eight percent, Surikov said. Zhbanov pointed out that Surikov's

statements on loans to Belarus cast doubt over whether Minsk would seek a credit from Moscow at all.

Moscow Not so Inexorable on Push for Market Reforms

15. (C) Irina Tochitskaya, Deputy Director at the Institute for Privatization and Management's Research Center, called Surikov's comments on gas prices "very surprising." She suggested that the rate was either the result of a political agreement or a commercial arrangement to give Gazprom a stake in a Belarusian company. Tatyana Manenok, energy correspondent for the independent weekly "Belarusy i Rynok" told Acting Pol/Econ Chief that recent talks between Grodnoazot -- which uses five percent of Belarus' gas imports -- and Gazprom subsidiary Gazoil on a USD 700 million modernization project, also suggest an inside deal linked to lower gas prices.

16. (C) Zhbanov said USD 125-130/tcm was in line with his expectations from the beginning of the year, since he had already factored in Moscow's desire to arrange for a soft landing for the Belarusian economy.

Comment: Lukashenko Dodges Another Bullet

17. (C) Final negotiations over gas may very well still go down to the wire just like last year. However, Russia's willingness to remove the threat of a more substantial price hike this early into the game is a boon for Lukashenko. Low foreign reserves and an increasing foreign trade deficit (ref B) put pressure on the GOB to privatize and/or borrow. The reduced uncertainty over gas prices should help the GOB

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secure credit on better terms if it is wise enough to do so before the economy sags further.
STEWART